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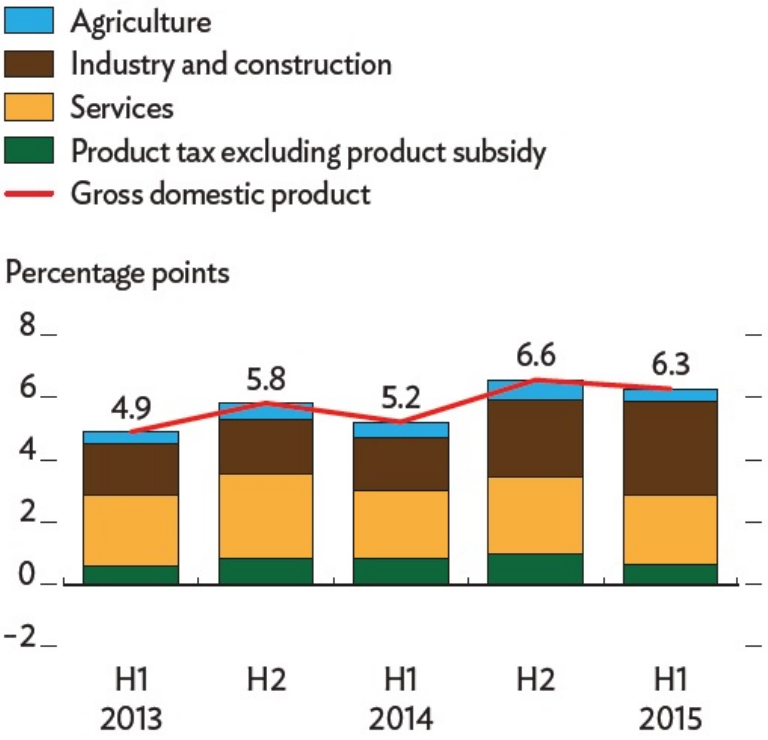
VIETNAM COUNTRY REPORT

40th ACF Council Meeting
Philippines, 9th October 2015

Macroeconomics Overview

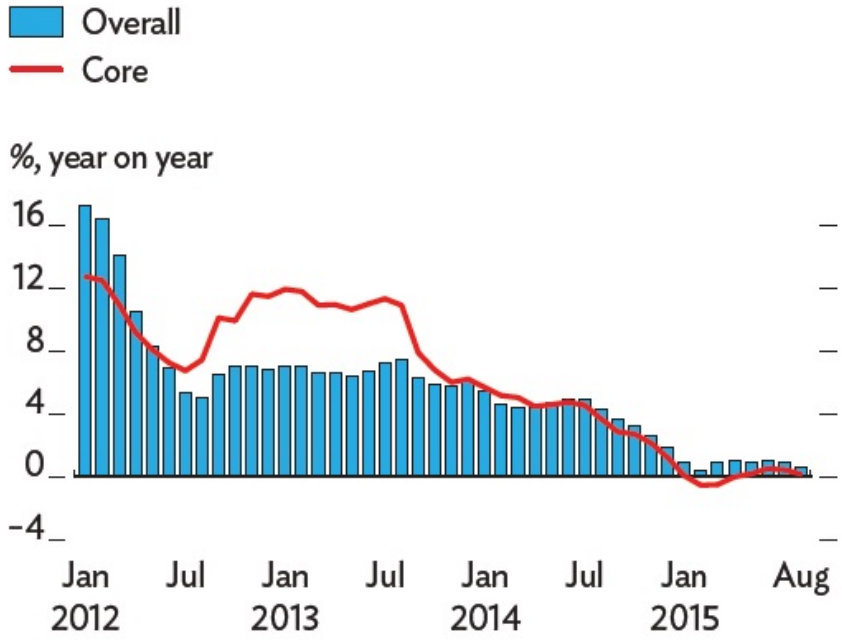
- Fastest first-half GDP growth pace since 2010, driven mostly by expansion of Industry and Construction



Source: General Statistics Office of Viet Nam.

Macroeconomics Overview

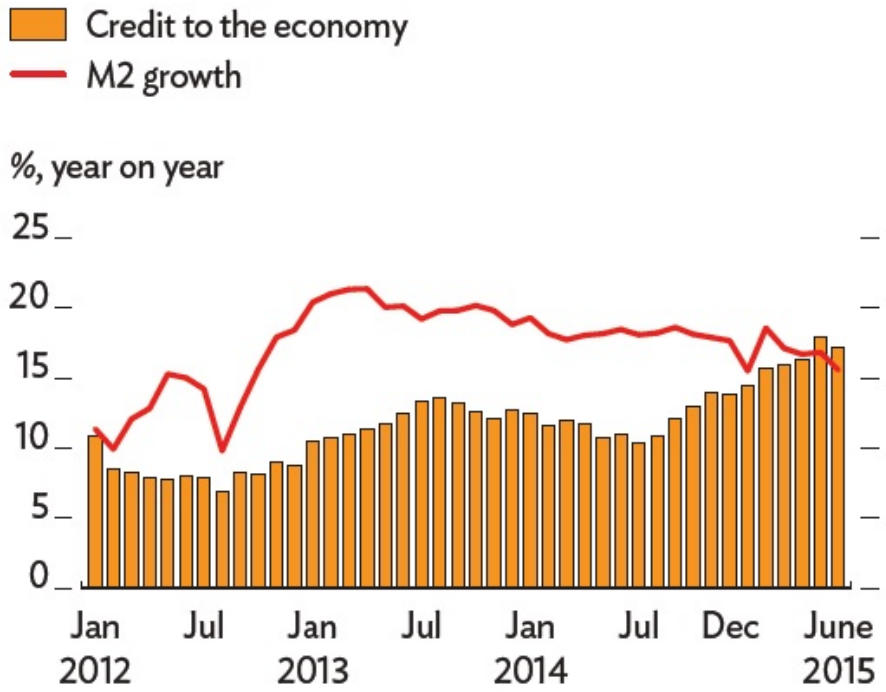
- Low inflation encouraged private consumption, investment , credit growth and disbursements of foreign direct investment (FDI).



Source: General Statistics Office of Viet Nam.

Macroeconomics Overview

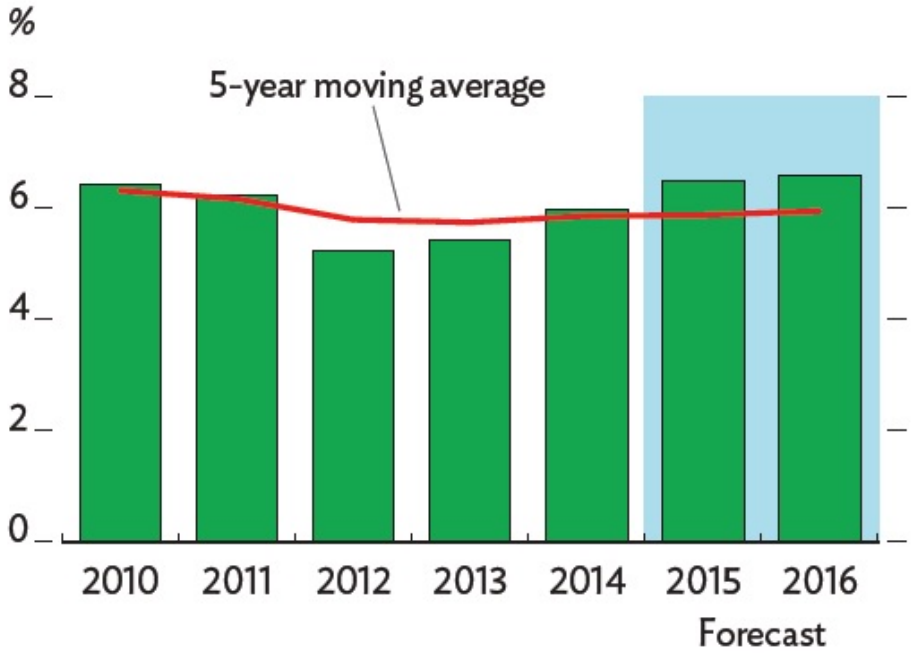
- Decreasing lending rates led to increasing in credit growth of 17.1% and broad money supply reaching 15.6% y-o-y.



Sources: State Bank of Viet Nam; ADB estimates.

Macroeconomics Overview

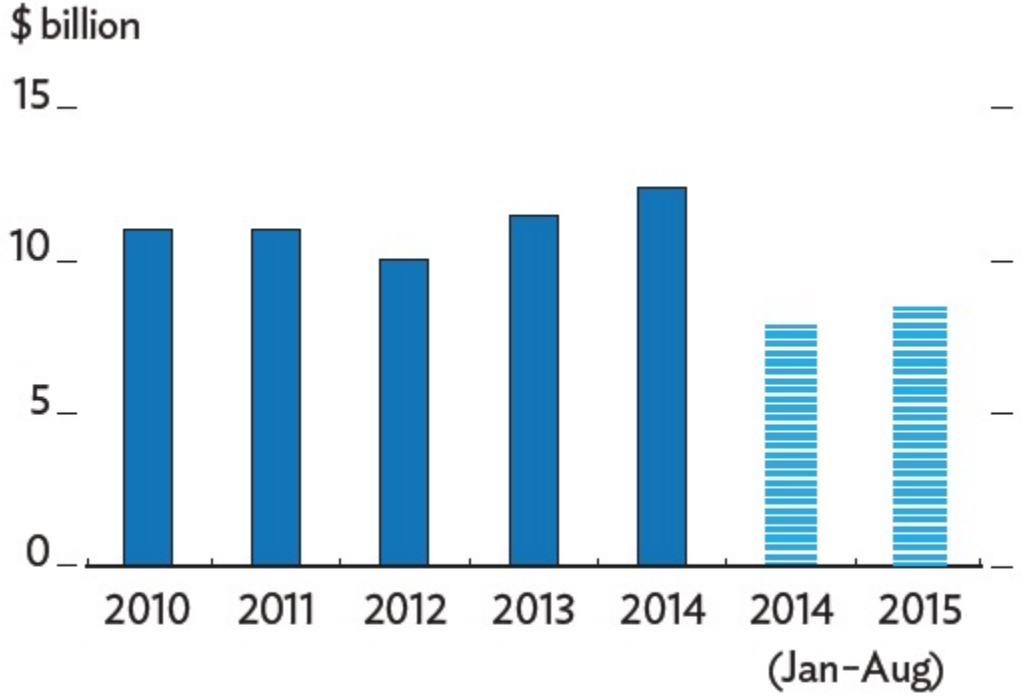
- Prospect: rising private consumption, export-oriented manufacturing, and foreign direct investment would lead to accelerate economic growth



Source: Asian Development Outlook database.

Macroeconomics Overview

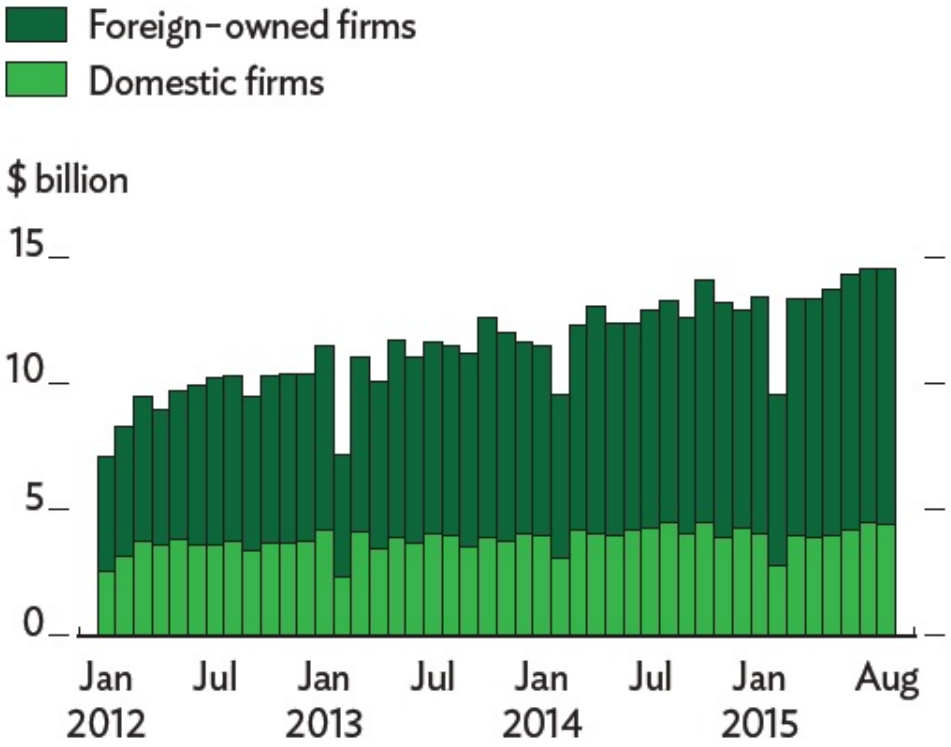
- Prospect: Manufacturing continues to attract substantial FDI inflows



Source: General Statistics Office of Viet Nam.

Macroeconomics Overview

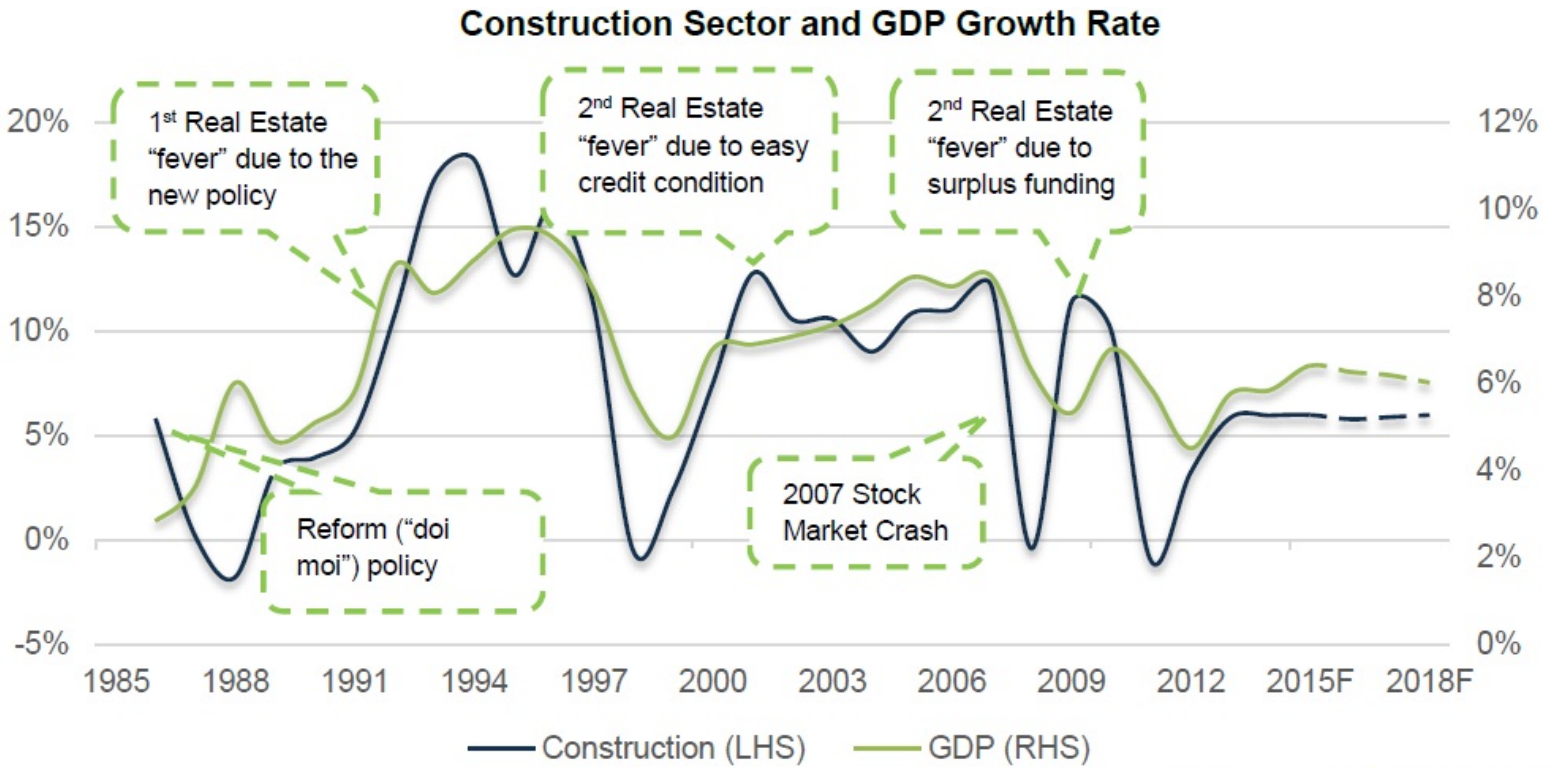
- Prospect: Foreign-owned firms now generate 70% of total exports, up from half 5 years ago



Source: General Statistics Office of Viet Nam.

Industry Characteristics

- The development of construction industry is depended on economic growth and macro-economic condition



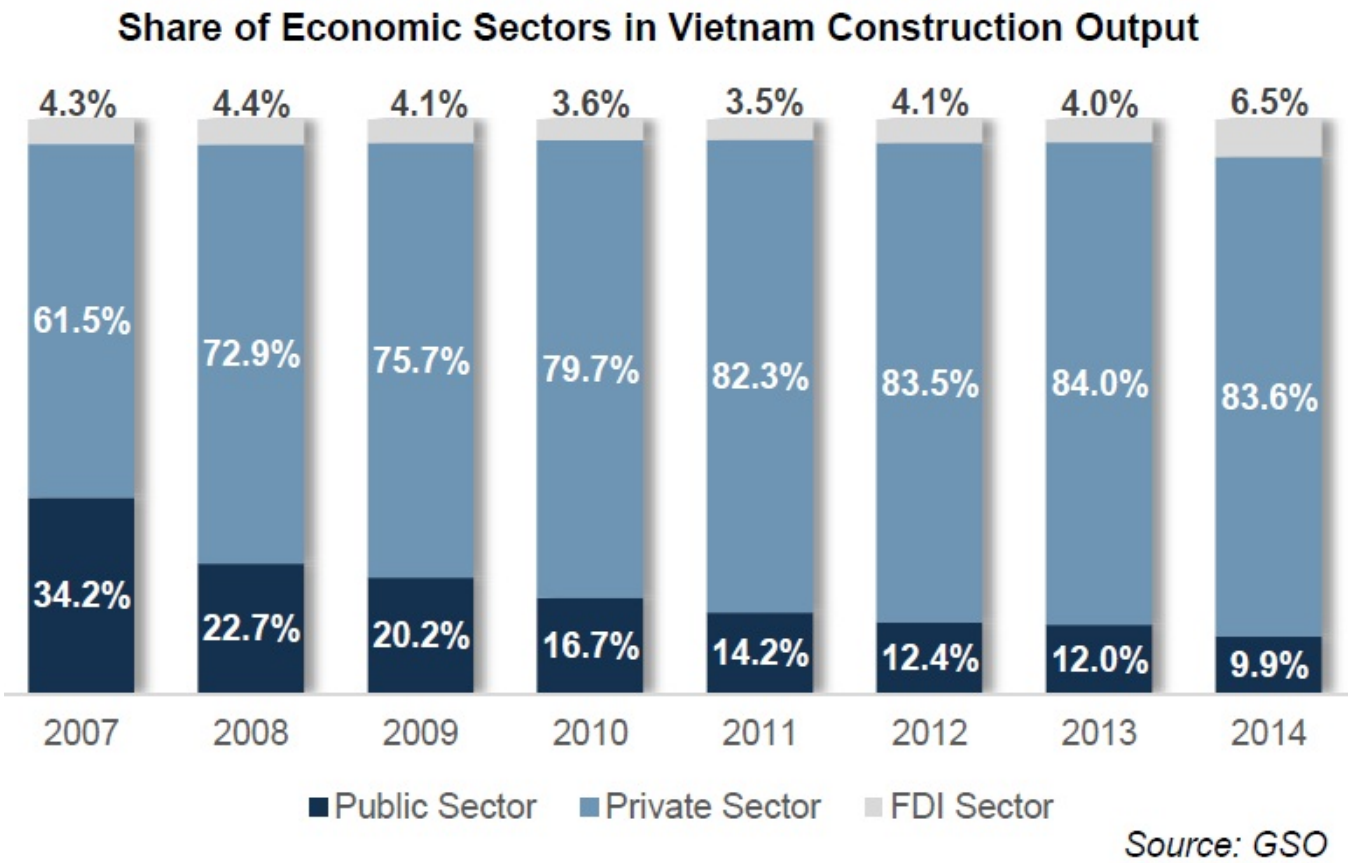
Source: IMF, BMI, and FPTS Research

Industry Characteristics

- With low current interest rate, high level of government disbursement and Foreign Direct Investment, Vietnam Construction Industry is entering into a new growing cycle from 2015.

Industry Characteristics

- Private sector always play a key role in stimulating the industry growth

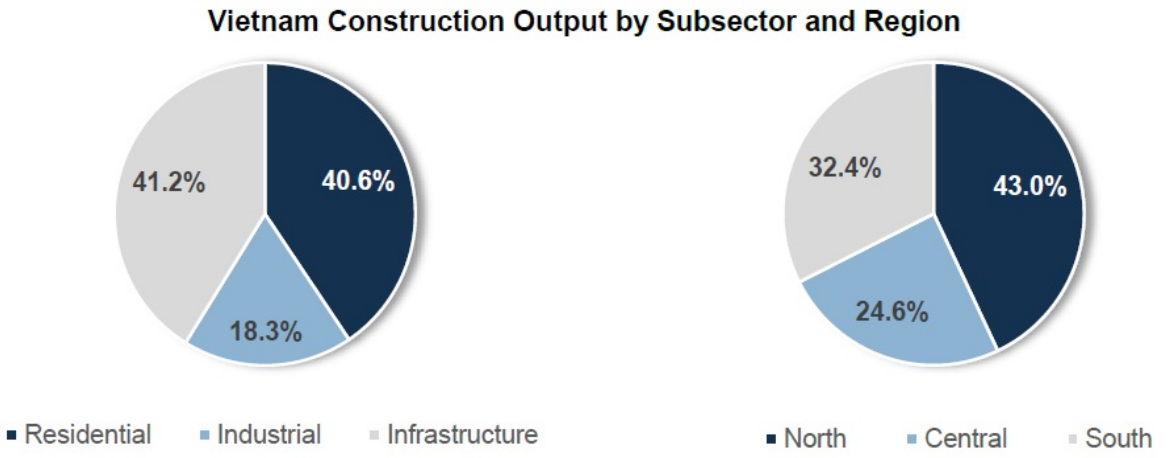


Industry Characteristics

- If the efforts to improve legal framework for PPP taking effect, there will be an increase in private investment which will, in turn, stimulate growth in the construction industry as a whole.

Industry Characteristics

- Residential and infrastructure sectors always occupy for the highest percentage in the industry structure.



Source: GSO

Note: *the constructions and projects in this report will be categorized into 3 main subsectors:* ***Residential*** *(Houses, Office Buildings, Retail Spaces),* ***Industrial*** *(factories, warehouses, and Industrial Zones),* ***Infrastructure*** *(Roads, Sewerage Systems, Water Treatment Systems, Power Plants, Refineries).*

Industry Characteristics

- As a result of joint effort from the government and businesses, housing inventory decreased by 21% to VND 77.8 trillion. Consequently, real estate market are expected to be flourished in 2015, which will drive up spending on residential segment.
- Expectation from upcoming Fair Trade Agreements and demand for infrastructure development will be the key drivers for Vietnam construction industry in the following years.

Vietnam Construction Market

- Promising – growth residential Construction Market
- Industrial Construction Market
- Infrastructure Construction market
- Construction cost be
- Improvement in Policies and Legal Frameworks
- Market Outlook
- Upcoming Trends
- Current Limitations

Promising Residential Market

- In 2030, Vietnam's population is expected to increase of 48% in compare to current number
- The average dwelling-house floor area will increase 48% y-o-y

The National Program on Urban Development 2012 – 2020

	2013	2015	2020
Urbanization Rate	33,5%	38%	45%
Avg Dwelling-House Floor Area	23,1 m2/person	26 m2/person	29 m2/person
Permanent Houses Rate	60%	65%	75%

Source: Ministry of Construction

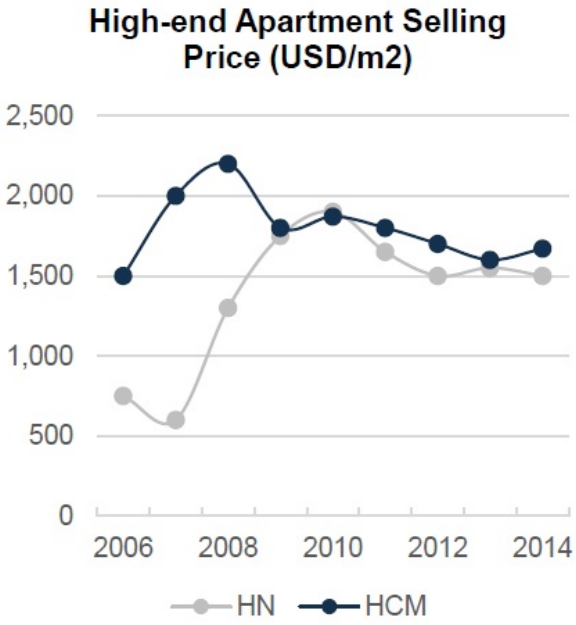
Promising Residential Market

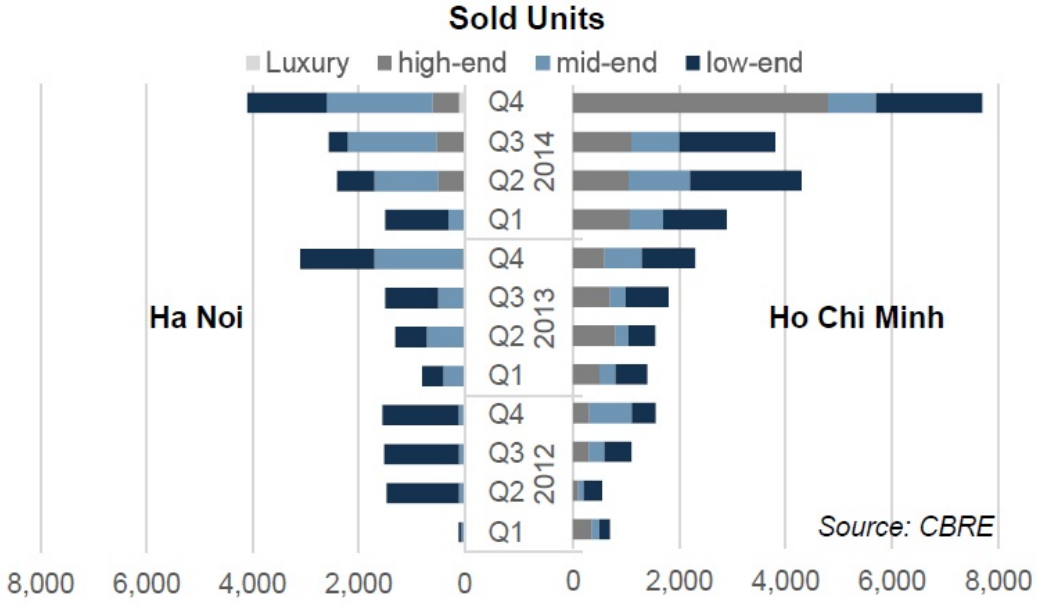
- New regulations and policies issued to support the real estate market recovery even further

- Real estate ranked second of the top sector that received the most Foreign Direct Investments (FDI) inflow in Vietnam

Promising Residential Market

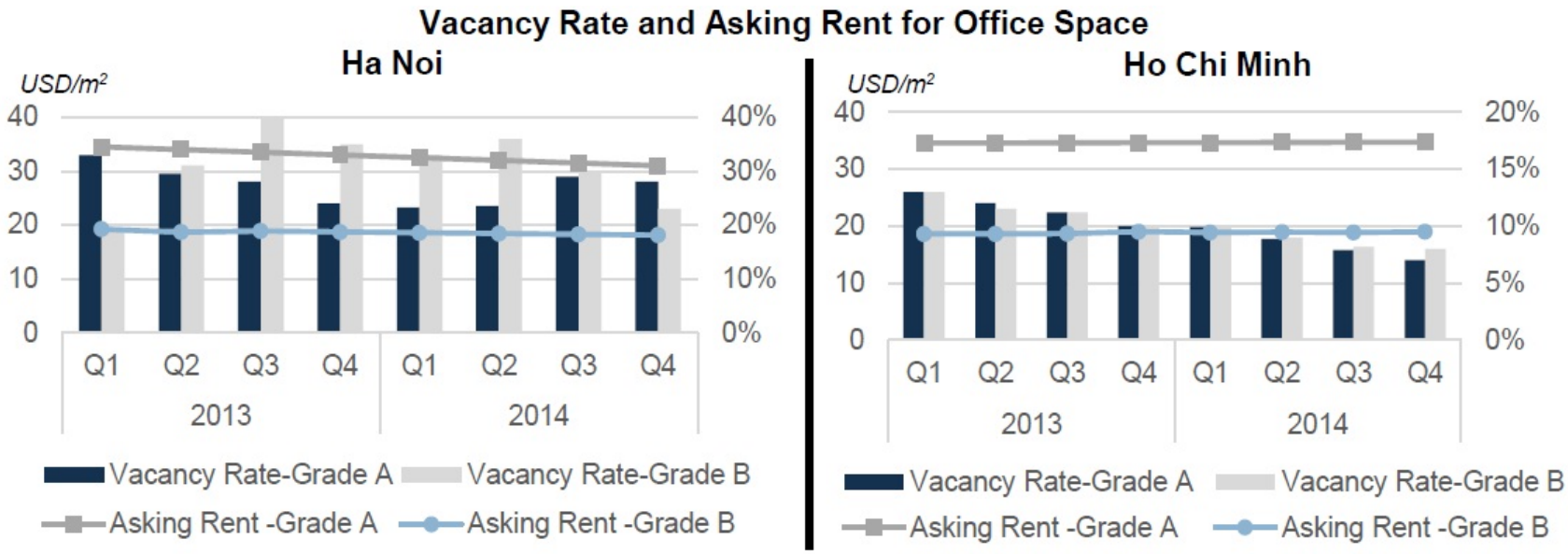
- The liquidity of **housing market** has improved significantly since 2014





Promising Residential Market

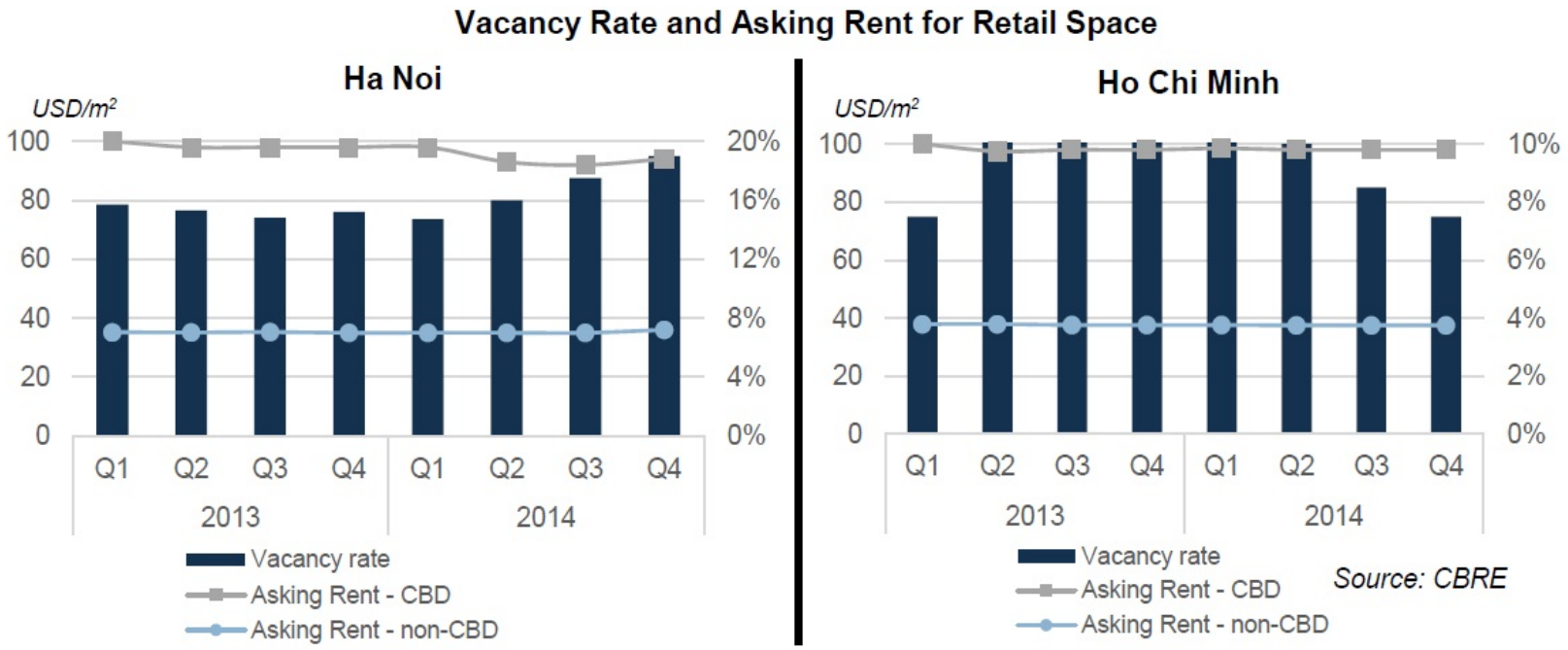
- Demand for **office space market** will be likely to increase in near future.



Source: CBRE

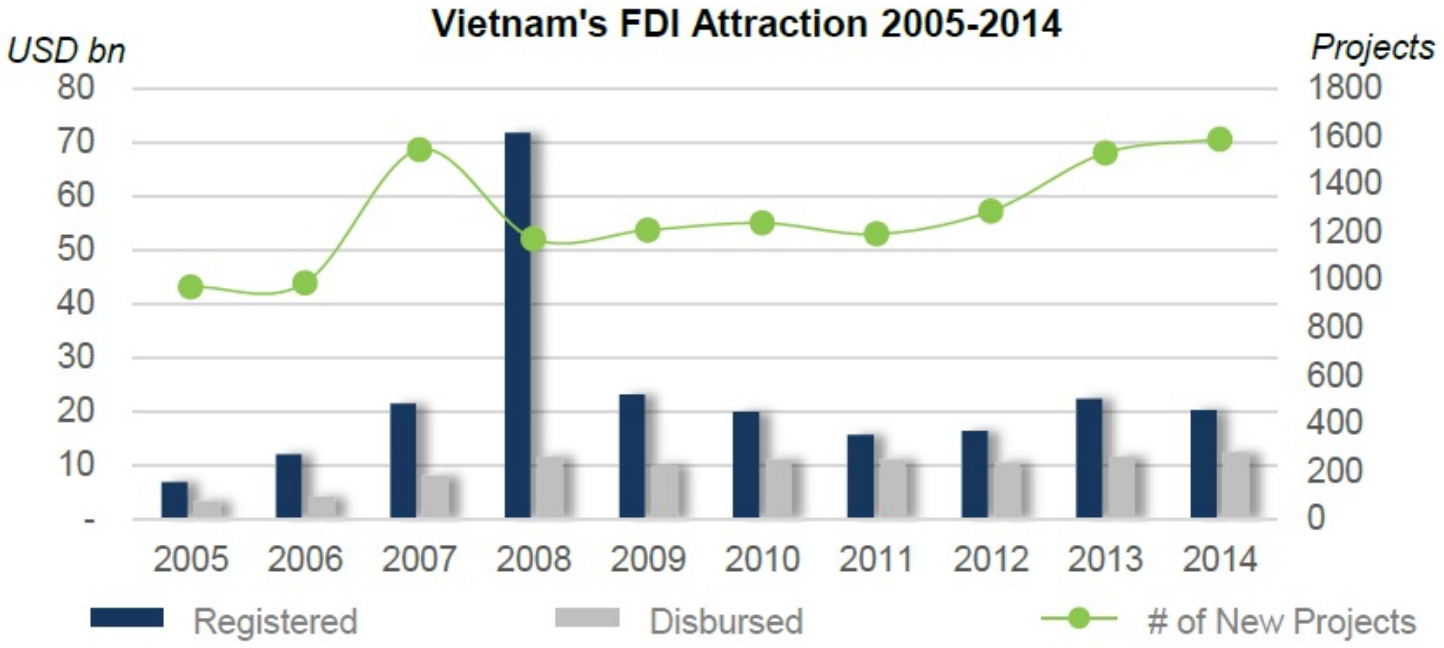
Promising Residential Market

- Retail space market expansion as demand increasing from many domestic and international retailers



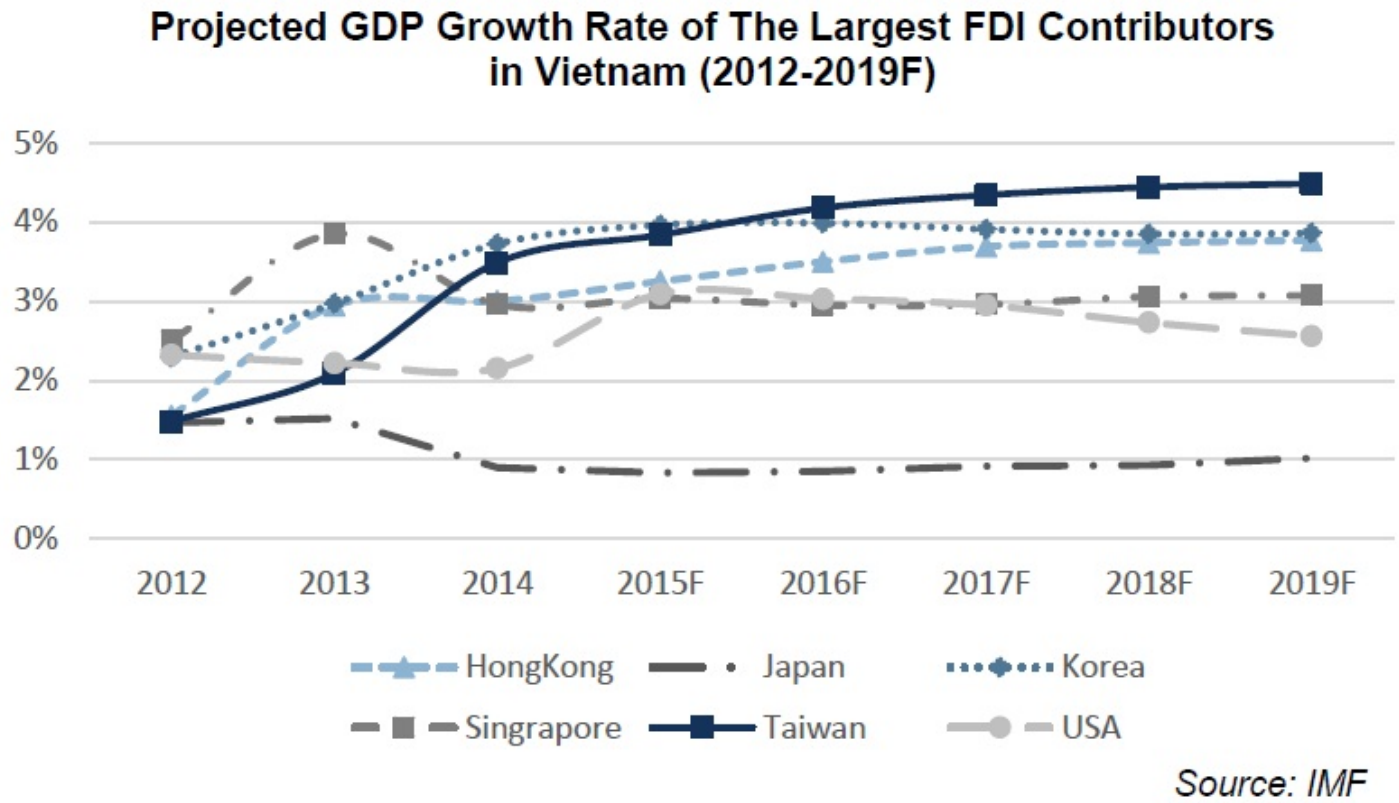
Industrial Construction Market

- Demand for industrial construction market will fluctuate according to health of the economy and the amount of FDI flow into Vietnam.



Industrial Construction Market

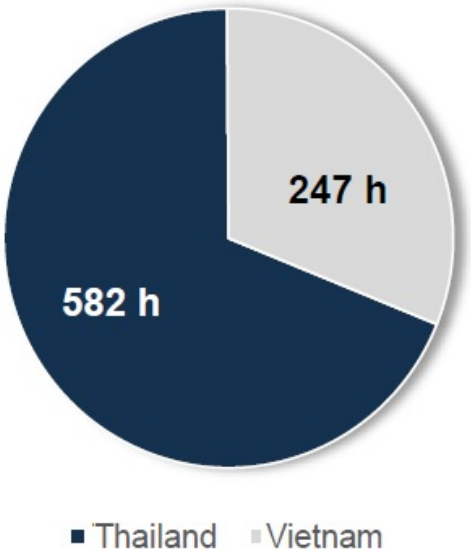
- Economic situation of countries with large FDI flow into Vietnam is brightening up.

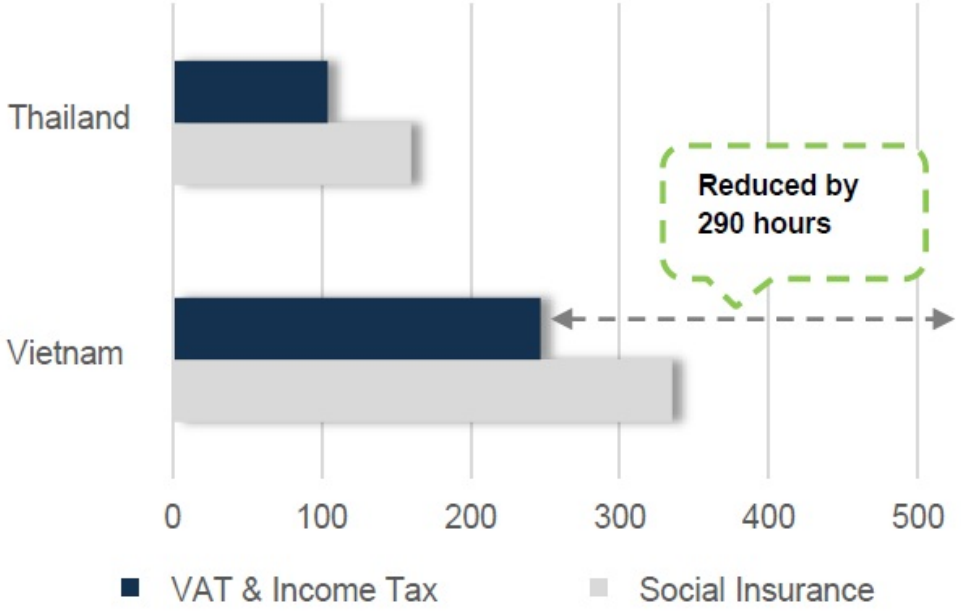


Industrial Construction Market

- Reforming administrative procedures and business environment

Tax Payment Time in Vietnam and Thailand





Source: FPTS Research

Industrial Construction Market

- 6 Fair Trade Agreements (FTAs) under negotiation and ready to join ASEAN Economic Community in 2015

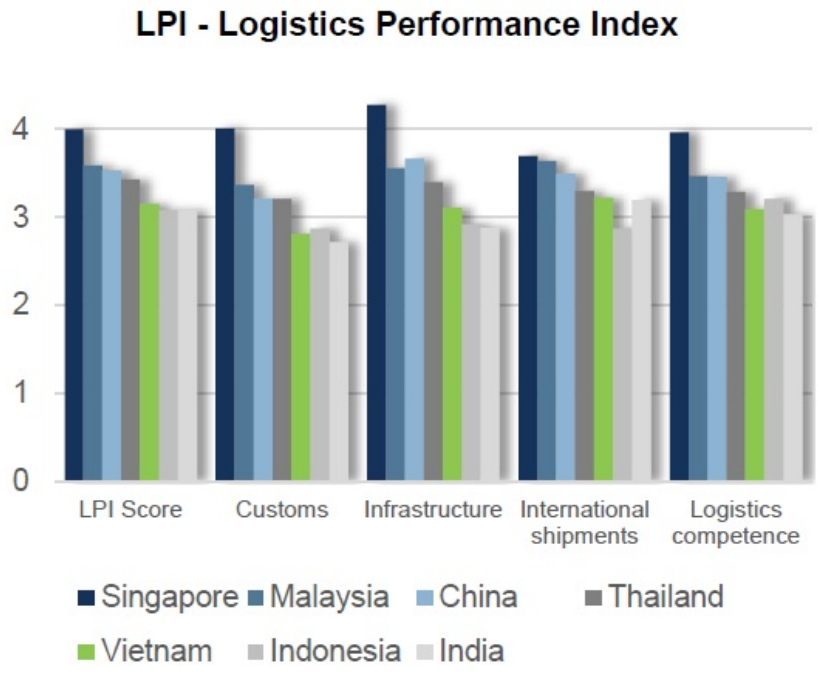
Current Critical FTAs

FTA	Signed in 2014	In Progress
Vietnam - The Customs Union of Russia-Belarus-Kazakhstan (VCUFTA)	x	
Vietnam-Korea Free Trade Agreement (VKFTA)	x	
Trans-Pacific Partnership (TPP)		x
Viet Nam-EU Free Trade Agreement (VN-EU FTA)		x
Regional Comprehensive Economic Partnership (RCEP)		x
Southeast Asia – EU Free Trade Agreement (ASEAN – EU FTA)		x
Vietnam - the European Free Trade Association FTA (VN – EFTA FTA)		x
ASEAN-Canada Trade and Investment Framework Agreement (TIFA)		x

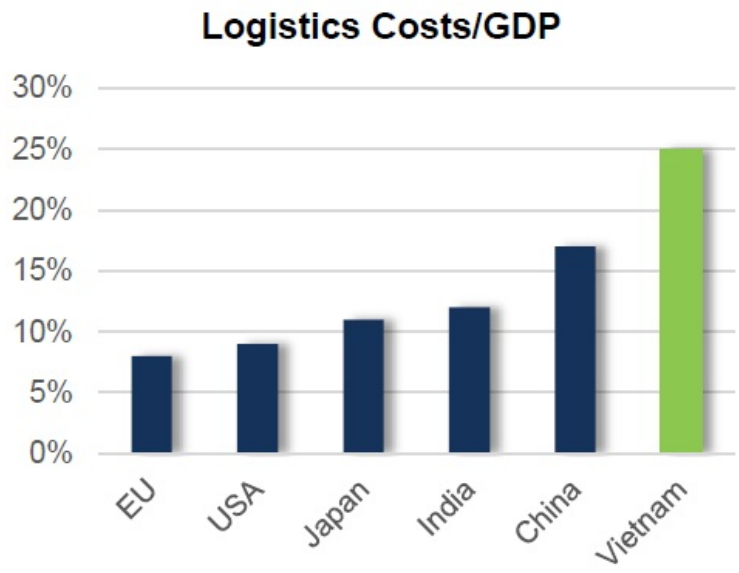
Source: FPTS Research

Industrial Construction Market

- Poor infrastructure system is one of Vietnam's weaknesses



Source: World Bank



Source: FPTS Research

Industrial Construction Market

- Poor infrastructure system is one of Vietnam's weaknesses

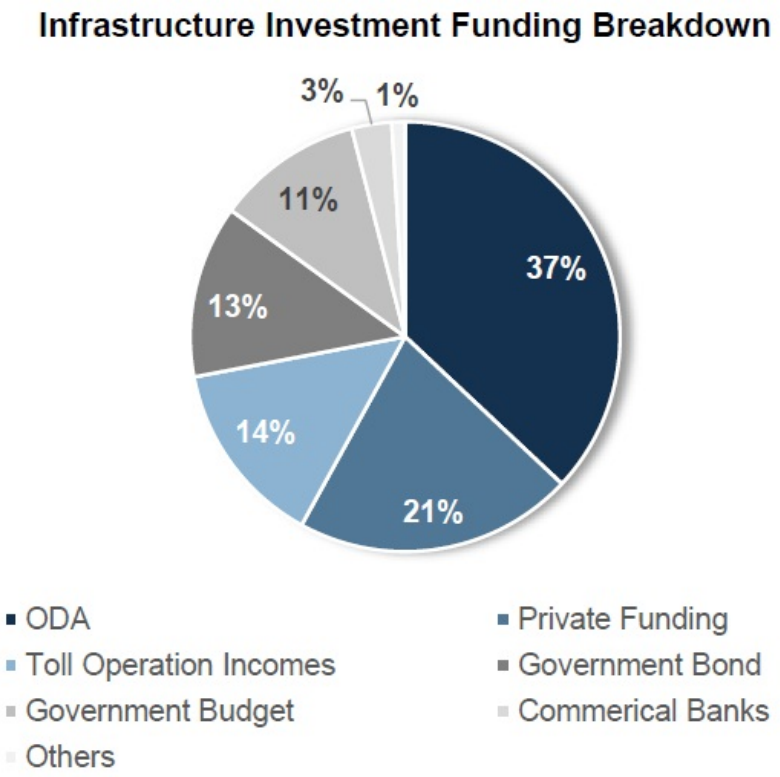
Vietnam Infrastructure Ranking

	Rank 2010/2011	Rank 2011/2012	Rank 2012/2013	Rank 2013/2014	Rank 2014/2015
Quality of Overall Infrastructure	**123**	**123**	**119**	**110**	**112**
Quality of Roads	117	123	120	102	104
Quality of Railroad Infrastructure	59	71	68	58	52
Quality of Port Infrastructure	97	111	113	98	88
Quality of Air Transport	88	95	94	92	87
Quality of Power Supply	98	109	113	95	88

Source: World Bank

Industrial Construction Market

- Large demand for infrastructure investment estimated at approximately VND 327,000 bn per year until 2020.



Source: FPTS Research

Infrastructure Construction Market

- ***Decree No. 15/2015/ND on public-private partnership investments (PPP)*** potentially promote private investment to infrastructure projects in Vietnam.

Investment Demand by Sector

Sector	Number of Project	Required Capital (USD bn)
Technical Infrastructure	51	41.9
Social Infrastructure	20	5.1
Agriculture	44	2.2
Food Processing	8	0.3
Manufacturing - Services	4	8.6
Total	127	58.1

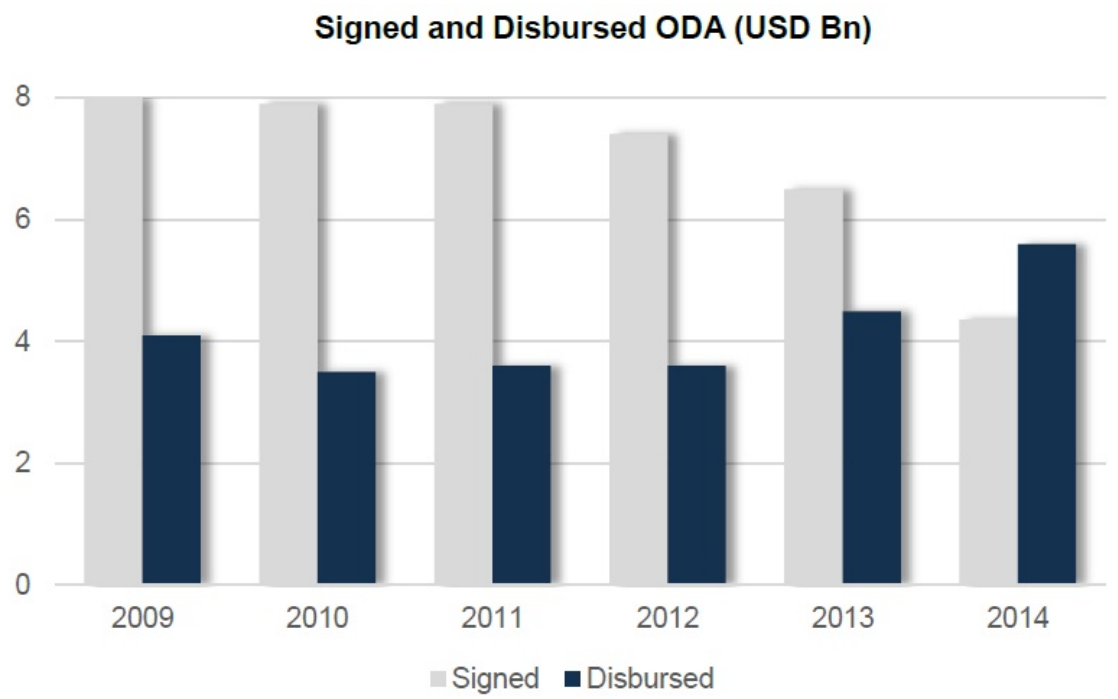
Critical Projects Currently Raising Foreign Capital

Project	Required Capital (USD bn)	Investment Form
Trung Lương - Mỹ Thuận Highway	1.8	PPP,ODA
Dầu Giây - Liên Khương Highway	3.5	PPP
Biên Hòa - Vũng Tàu Railway	5	BOT
Long Thành Int' Airport	5.6	PPP,BOT
Metro Lines Project	5.1	BOT, PPP
Bình Định Power Center	4.0	PPP
Nội Bài - Hạ Long Highway	1.8	PPP,BOT
Nam Vân Phong Refinery Project	8	75% Joint Venture

Source: Ministry of Planning and Investment

Infrastructure Construction Market

- Annual ODA disbursement is around USD 3-5 bn critical capital source supporting annual investment demand of the Vietnamese government.



Source: FPTS Research

Infrastructure Construction Market

- List of delayed projects at HCMC in 2014

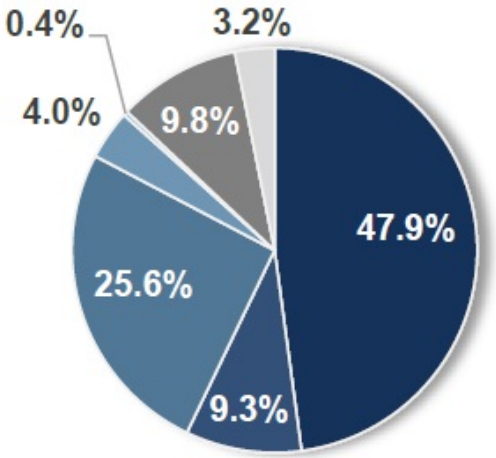
Listed of Delayed Projects at HCMC in 2014

Project	Investment Capital (VND bn)	Reason
Metro Line No.2 (Bến Thành-Tham Lương)	26,116	▪ Design Change ▪ Delay in Land Clearance
Ho Chi Minh City Water Environment Improvement Project (Phrase) (Tau Hu - Ben Nghe - Doi Te Canal Basin)	11,281	▪ Delay in Technical Design (Due to the complicated technical requirements)
Reducing water losses, improving and expanding water supply system managed by SAWACO.	3,003	▪ Changes in bidding process for the majors packages

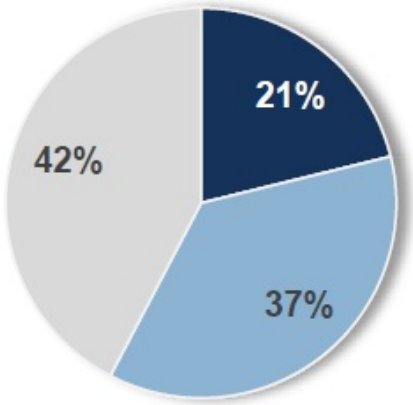
Source: FPTS Research

Construction cost breakdown

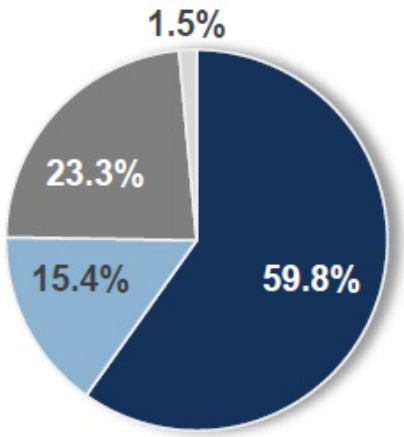
Construction Cost Breakdown



- Construction Cost
- Equipment
- Legal Cost
- Project Design & Management Fees
- Others
- Provisions
- Interest Expenses



- Foundation
- Structure & Frame
- Finishing



- Material Cost
- Labour Cost
- Machinery & Equipment Cost

Note: *This breakdown is based on the construction cost of a 17-storey office building project in HCMC*

Source: FPTS Research

Construction cost breakdown

- According to Davis Langdon & Seah, Vietnam construction cost is lower than most of other countries.

Construction Costs in Asia

	Vietnam	Malaysia	Thailand	Indonesia	China
Houses-Apartments (USD/m²)					
Apartments, high rise, avg standard	640	**510**	789	680	703
Apartments, high rise, high end	**810**	1078	1105	940	1763
Terraced Houses, avg standard	415	**348**	568	390	530
Detached Houses, high end	**505**	1063	947	1020	775
Office/Commercial (USD/m²)					
High Rise Office, avg standard	750	828	742	**665**	1143
High Rise Office, high end	**925**	1303	1010	985	1468
Retail Space, avg standard	**550**	755	764	570	856
Retail Space, high end	750	970	900	**625**	1550
Industrial (USD/m²)					
Industrial Units, shell only	**405**	463	576	505	613
Industrial Units, light weight, low rise	405	583	N/A	**355**	N/A

Source: Davis Langdon & Seah

Policies and Legal Frameworks

- **Demand-side policies for the real estate market:**

* ***Resolution No. 02/NQ-CP*** deployed VND 30,000 bn credit package on June, 2013

* ***Resolution No. 61/NQ-CP*** was introduced in August, 2014 to lower the interest rate

* ***Circular 36/TT-NHNN***, reducing risk factors for the real estate loans

Policies and Legal Frameworks

- Law on Bidding 2013 and Decree 63 regarding the selection of contractors
- The new legal framework for PPPs
- Construction Law (Amendment) 2014:
- Development Master plans

Market Outlook

Residential construction:

- Law on Housing (Amendment) 2014 allowing foreigners to buy houses in Vietnam.
- Introduction of VND 30,000 bn credit package while economic condition is gradually warming up with the support from the reducing interest rate and demand-side policies

Market Outlook

Industrial construction

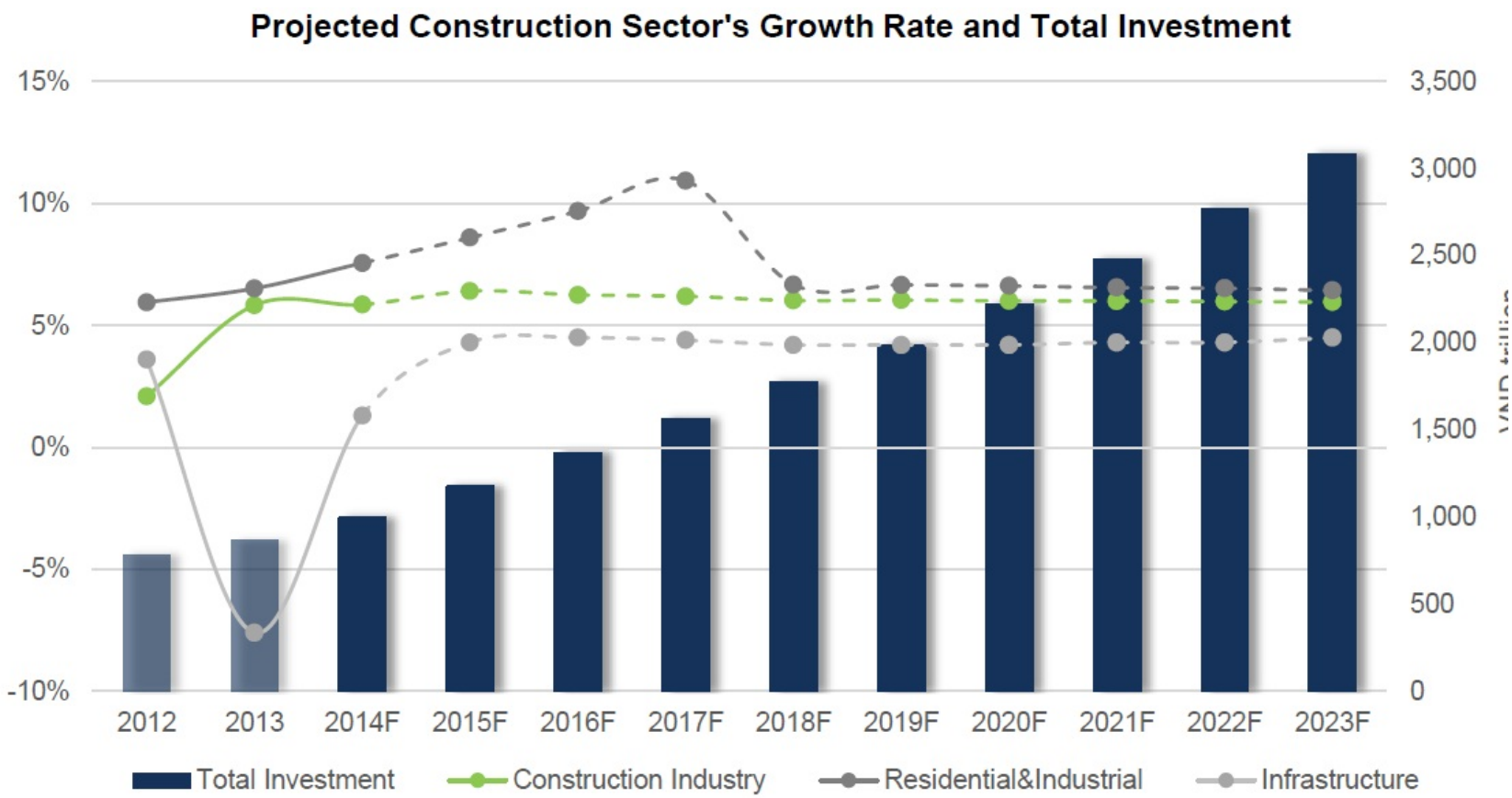
- Investment from manufacturing industry always holds the highest proportion in the FDI structure
- Vietnam is involving in 6 FTA negotiations, including the TPP, along with the breakthroughs in logistics system and business environment

Market Outlook

Infrastructure construction

- Approximately 40% of the road network is in a poor or very poor condition
- The amount of capital needs for upgrading the network is estimated at USD 48-60 bn till 2020
- In addition, the Government has also planned to build 26 airports (10 international and 16 domestic airports) until 2020 (including prominent Long Thanh International Airport)

Market Outlook



Source: BMI

Upcoming Trends

- Design – Build model, which, in turn, will create the added values and improve the gross margin

- Universalizing the modern construction technologies and new management systems is a necessary step for this industry in the near future.

Current Limitations

- Poor site management and supervision
- Poor project management assistance
- Financial difficulties of owners
- Financial difficulties of contractor
- Design changes

THANK YOU